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STATE OF ILLINOIS

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Commonwealth Edison Company)	
)	00-0259
Petition for expedited approval of)	
implementation of a market-based)	
alternative tariff, to become effective on)	
or before May 1, 2000, pursuant to)	
Article IX and Section 16-112 of the)	
Public Utilities Act)	
)	(cons.)
Central Illinois Public Service Company)	
Union Electric Company)	
)	00-0395
Petition for approval of revisions to)	
market value tariff, Rider MV)	
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Illinois Power Company)	
)	00-0461
Proposed new rider MVI and)	
revisions to rider TC.)	

**BRIEF ON EXCEPTIONS OF
CENTRAL ILLINOIS LIGHT COMPANY**

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Now comes Central Illinois Light Company ("CILCO" or "the Company"), pursuant to §200.830 of the Illinois Commerce Commission Rules of Practice, 83 Ill. Adm. Code §200.830, and herewith submits its Brief on Exceptions to the Hearing Examiners' Proposed Order, dated December 22, 2000, ("Proposed Order") in the above-captioned matter.

I. SUMMARY OF CILCO'S POSITION

CILCO's witnesses advocated adjustments to the wholesale market indices to reflect load uncertainty characteristics of retail markets; planning reserve requirements and capacity-backed

source requirements to obtain network transmission. CILCO also supported Commonwealth Edison's twice a year Market Value updates over Illinois Power's monthly updates. These exceptions focus on the Proposed Order's conclusions regarding adjustments for planning reserves and capacity-backed requirements. Other adjustments or criticisms offered by other parties may also be appropriate, and CILCO's silence on a particular issue should not be construed as either supporting or opposing a particular position.

II. PRICING AND MARKET DEFINITION RELATED ISSUES (V.C.2.)

A. PLANNING RESERVE ADJUSTMENT

The Proposed Order correctly determines that the Ameren and Illinois Power market index filings should be adjusted to account for planning reserve requirements to obtain the network transmission for serving retail customers in their service territories. While the costs of the planning reserves would have been taken into account by retail suppliers when quoting a price to retail customers, market values reflected in firm energy only indices do not incorporate these costs. CILCO Ex. 1.0, pp. 1-3. However, the Proposed Order erred by proposing a static \$0.61 adjustment rather than the 15 per cent adder supported by CILCO. The CILCO testimony cited in the Proposed order was merely an example of how the 15 per adder would be applied. The \$0.61 was calculated by taking 15 per cent of \$4.07. The static \$0.61 adjustment will obviously be far less than the cost of providing a 15 per cent planning reserve during times when the market index is significantly greater than \$4.07 per megawatt-hour.

The Proposed Order also erred in accepting Ameren's proposal to increase the market value by the amount taken from its OATT schedule 4A. The OATT charge applies only when Ameren incurs a net under delivery and even then under limited circumstances. CILCO has not been convinced

that these limited charges can be equated to a constant, around the clock, additional 15 per cent cost of securing planning reserve for the network transmission service needed to supply retail customers. Planning reserves are not obtained only for the limited occurrences in a month that trigger the OATT schedule 4A charges, but rather must be secured in advance for every hour of every day.

The Commission should substitute the following replacement language for the Proposed Order's conclusion appearing at pages 122-123:

It has been suggested by some parties that Ameren and IP could avoid such an adjustment to market value by accepting marketer firm products without requiring additional planning reserves, as ComEd does. As noted above, ComEd does not require planning reserves; instead it accepts financially firm agreements such as those traded on the electronic exchanges to serve as a designated resource. Alternatively, Ameren, which requires a planning reserve, but does not accept financially firm agreements to serve as designated resources, agrees that an upward adjustment to market values derived from financially firm agreements is appropriate. ~~Ameren proposed that the pricing for this component of the market value be taken from Ameren's OATT Schedule 4A. The Commission finds that this modification to Ameren's proposal is appropriate and should be approved.~~

On this issue, IP argues that it does not require planning reserves; however, other parties have asserted that IP does, in fact, require planning reserves. IP also argues that the financially firm agreements such as those traded on the Altrade and Bloomberg electronic exchanges include the cost of planning reserves, even though several other parties, including Ameren, suggest this is not the case. The Commission believes that Staff captured the essence of this issue when it stated, "Either a planning reserve requirement is just and reasonable (Ameren's view) or it is not (IP's view), depending on whether the Altrade and Bloomberg Powermatch prices exclude or include, respectively, a component for reserve margin costs." Of course, this assumes that the utility does not accept financially firm agreements as a designated resource.

Inasmuch as IP has suggested that it does not require a planning reserve if a RES uses financially firm agreements to meet retail load (See IP brief at 21), the Commission proposes that IP modify its tariffs to explicitly set forth such information. Given that IP has the statutory authority to reject a Commission proposed modification to its tariff and instead return to the NFF to establish market values, the Commission offers an alternative proposal to IP. In the event IP declines to modify its tariffs to accept financially firm agreements to meet retail load without requiring planning reserves, then the Commission proposes that IP adjust upward its market value calculations to reflect costs associated with acquiring planning reserves. In that event,

the Commission proposes that IP increase the market value of power and energy by ~~\$0.61 per megawatt-hour~~ 15 per cent as recommended by CILCO witness Lancaster to reflect the cost associated with acquiring planning reserves. (See CILCO Ex. 2.0 at 4-5). Ameren should also increase the market value of power and energy by 15 per cent if it does not modify its tariff so that planning reserves are not required if a RES uses financially firm agreements to meet retail load.

B. CAPACITY-BACKED ADJUSTMENT

CILCO proposed that the market indices upon which the Illinois Power and Ameren tariffs are based should be adjusted further to account for the capacity-backed retail product costs that are not captured in firm-energy only products. Illinois Power and Ameren NITS applications require retail suppliers to point to specific units or system supply. The higher costs to supply this capacity-backed product would not be reflected in the marketer firm products which comprise the market value indices proposed by Ameren and Illinois Power. Based upon a typical commercial and industrial customer load profile for a calendar year, the cost of the energy only component of a retail product was \$35.12 per MW, and the actual additional cost to acquire a capacity-backed product was \$4.07 per MW. CILCO Ex. 2.0, p. 5. To reflect the market value of capacity-backed retail products, the market value indices should be adjusted by \$4.07 per MW initially, with a provision for annual review by the Commission to reflect any changes in the developing market for capacity. Ameren was not opposed to the inclusion of a component to reflect the "transmission requirement" of regulatory capacity in the Ameren tariffs. Ameren Ex. 5.0, p. 7. Again, this adjustment would not apply to Edison, since it does not require a capacity-backed product to serve retail customers in its service territory, and Illinois Power could avoid the adjustment by adopting a practice similar to Edison.

The Proposed Order erred in determining the record does not support a capacity-backed adjustment. First, the Proposed Order has mistakenly concluded that CILCO has assumed that because

prices on the electronic exchanges do not explicitly state a separate capacity charge, it is an energy only value. CILCO made no such assumption. In fact, CILCO's witnesses specifically corrected their pre-filed written testimony to make explicit that they recognized that the proposed market indices reflect "firm" products. The designation of a capacity-backed resource ("iron in the ground") is an additional requirement, over and above the financially firm contracts, that Illinois Power and Ameren impose upon retail electric suppliers in their service territories. Edison does not impose such a requirement, so the Proposed Order is also in error when it states "all three utilities use the data from the electronic exchanges in the same manner." HEPO at p. 124. In fact, Edison accepts financially firm products backed only by liquidated damages for providing network transmission to retail electric suppliers, whereas Ameren and Illinois Power will not accept liquidated damage products without designation of iron in the ground. CILCO testimony showed that for a typical commercial and industrial customer load profile, the actual additional cost to acquire a capacity-backed product was \$4.07 per MW.

The Commission should reject the Proposed Order's conclusion, and the following replacement language should be substituted for the Proposed Order's conclusion appearing at page 124:

~~It appears CILCO has assumed that because prices on the electronic exchanges do not explicitly state a separate capacity charge, it is an energy only value. However, the record does not support this conclusion. In addition, the Commission notes that the NFF reported market values without a separately stated capacity charge. The record indicates that, with regard to financially firm contracts and the capacity backed issue, all three utilities use the data from the electronic exchanges in the same manner. The Commission believes that Ameren, IP and ComEd should be treated the same and that a capacity backed adjustment is not supported by the record.~~

The Commission concludes the market indices upon which the IP and Ameren tariffs are based should be adjusted further to account for the capacity-backed retail product costs that are not captured in marketer-firm, liquidated damages products. IP and Ameren NITS applications require retail suppliers to point to specific units or system supply. The higher costs to supply this capacity-backed product would not be

reflected in the marketer firm products which comprise the market value indices proposed by Ameren and IP. In the event IP and Ameren decline to modify their tariffs to accept financially firm agreements to meet retail load without requiring retail suppliers to point to specific units or system supply, then the Commission proposes that IP and Ameren adjust upward their market value calculations to reflect costs associated with capacity-backed products. In that event, the Commission proposes that IP and Ameren increase the market value of power and energy by \$4.07 per megawatt-hour initially as recommended by CILCO witness Lancaster. (See CILCO Ex. 2.0 at 5). The companies retain the right to seek modification of this adjustment to reflect any changes in the developing market for capacity. This adjustment would not apply to Edison, since it does not require a capacity-backed product to serve retail customers in its service territory, and IP and Ameren can avoid the adjustment by adopting a practice similar to Edison.

III. TIME PERIOD AND NOTICE RELATED ISSUES (V.D.I)


CILCO sought to have the Commission propose a modification to the Illinois Power proposal, which would update the market value on a monthly basis, to follow the Edison and Ameren tariffs, which propose to update only twice per year. Under Illinois Power's proposed tariffs, customers would be allowed less than two weeks to make decisions to switch suppliers. Based upon CILCO's experience with customers, two weeks is insufficient time for the customer or supplier to examine the numbers, negotiate a contract and proceed through business decision making channels. CILCO Ex. 3.0, p. 5. The Proposed Order would alleviate CILCO's concern by proposing that Illinois Power "expand the decision window by moving the index sampling intervals back one month as proposed by Unicom witness Braun." HEPO p. 127. If Illinois Power does not follow the Edison and Ameren proposal to update only twice per year, CILCO supports the Proposed Order's condition on approving the 12 month rolling average methodology.

IV. CONCLUSION

WHEREFORE, Central Illinois Light Company respectfully requests the Commission revise

the Hearing Examiner's Proposed Order in accordance replacement language set forth above, for the reasons set forth herein.

CENTRAL ILLINOIS LIGHT COMPANY

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